Indiana Department of Financial Institutions

BORROWING BASICS

Take Home Guide

Building: Knowledge, Security, and Confidence

FINANCIAL EDUCATION CURRICULUM

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Money Smart

The *Money Smart* curriculum is brought to you by the Indiana Department of Financial Institutions/Federal Deposit Insurance Corporation (FDIC). The *Money Smart* program includes the following courses:

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  an introduction to bank services
- **Check It Out**
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- **Money Matters**
  how to keep track of your money
- **Pay Yourself First**
  why you should save, save, save
- **Borrowing Basics**
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- **Charge It Right**
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- **Your Own Home**
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- **Loan to Own**
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Borrowing Basics

Welcome to Borrowing Basics! Sooner or later almost everyone needs to borrow money. Used wisely, credit can benefit you and your family. But first, there are some things you should know about the value of credit and its costs. This course will help you decide when and how to use credit.

See the Indiana Department of Financial Institutions' Web Sites on Applying for Credit at http://www.dfi.state.in.us/conscredit/CIapplying_for_credit.htm and Credit Reporting at: http://www.dfi.state.in.us/conscredit/CIcredit_reporting.htm.

Also see Consumer Rights Study Unit 1 on An Overview of Consumer Credit at: http://www.dfi.state.in.us/conscredit/StudyUnits/unit1.htm and Study Unit 5 on Fair Credit Reporting Act at: http://www.dfi.state.in.us/conscredit/StudyUnits/unit5.htm.

What is Credit?

Credit is money you borrow to pay for things. Credit is usually referred to as a loan. You make a promise to pay back the money you borrowed plus some extra. The extra amount is part of the cost of borrowing the money.

If you use credit carefully, it can be useful to you. If you are not careful in the way you use credit, it can cause problems.

Good credit means you made your loan payments on time and repay the money you owe. If you have a good credit record, it will be easier to borrow money in the future. A bad credit record will make it harder for you to borrow money in the future

Why is Credit Important?

- Credit can be useful in time of emergencies.
- Credit is sometimes more convenient than cash.
- Credit allows you to make large purchases such as a car or a house.

Types of Loans

Consumer Installment Loans

A consumer installment loan is used to pay for personal expenses for you and your family. The following are examples of consumer loans:

- Auto loans are used for buying an automobile. The automobile you are purchasing is used as collateral for the loan. Collateral is what you promise to give the lender if you do not pay back the loan.

- Personal loans are unsecured loans used for short-term needs like buying a computer.

Credit Cards

Credit cards give you an ongoing ability to borrow money for household, family, or other personal expenses.

Home Loans

Home loans are secured by your home. There are three main types of home loans.

- Home purchase loans are made for the purpose of buying a house.

- Home refinancing is a process by which an existing home loan is paid off and replaced by a new loan.

- Home equity loans are secured by a property of the borrower. The amount of equity is the value of the property minus the debt. Home equity loans generally can be used for any purpose.

Cost of Credit

When you get a loan, there are generally two costs you must pay: fees and interest.

Fees

A fee is the money charged by a financial institution to review your application for credit or to service your credit account. Examples of fees include:

- Maintenance fees
- Service charges
- Late fees

Interest

Interest is the amount of money the lender charges you for letting you use its money. Interest is only part of the total cost of credit.

Interest can be either variable or fixed.

- Variable rate means the interest rate may change during any period of the loan term, as written in the contract.
- Fixed rate means the interest rate stays the same throughout the term of the loan.

When You Apply for Credit

When you apply for credit, the lender will review three main factors to decide whether you are a good credit risk and if you will be able to pay back the loan. The factors are often called the Three Cs.

Capacity

Capacity is your present and future ability to meet your payments.

Capital

Capital is your savings and other assets which can be used as collateral for loans.

Character

Character means how you have paid your bills or debts in the past.

Lenders use credit reports to obtain character information. You can request a copy of your credit report by contacting any of the three major nationwide credit reporting agencies at the following toll free numbers:

Experian
P.O. Box 949
Allen, TX 75013-0949
(888)397-3742
Free

Equifax Credit Information Services, Inc.
P.O. Box 740241
Atlanta, GA 30374-0241
(800) 685-1111
$8 Fee

Trans Union Corporation
Trans Union Consumer Relations
760 West Sproul Road, P.O. Box 390
Springfield, PA 19064-0390
(800) 916-8800
$8 Fee

Checklist for Credit Decisions

Here are some questions you might be asked when applying for credit:

- How long have you been in your job?
- How much money do you make each month?
- What are your monthly expenses?
- How much money do you have in checking and savings accounts?
- Do you own a house?
- Do you have investments or other assets (e.g., car)?
- Have you had credit in the past?
- Have many credit accounts do you have?
- Have you ever been denied credit?
- Have you ever filed for bankruptcy?
- Have you ever had any outstanding judgments, property repossessed or foreclosed upon?
- Have you ever made late payments?

Tips Before Applying for Credit

Ask yourself these questions before obtaining credit:

- Do I need this?
- Do I need it now?
- Can I wait until I have cash to pay for it?
- Can I get credit?
- How much more will I pay if I buy on credit?
- Can I afford the monthly payments?
- What is the total cost of credit?
- Are there any fees?
- What is the annual percentage rate?

Tips to Manage Your Credit

Once you get credit:

- If possible, pay off your entire bill each month. If you can't try to pay more than the minimum balance due. This will reduce finance charges and total interest paid.
- Pay on time to avoid late fees and to protect your credit. If you cannot pay on time, call your creditor immediately to explain the situation. They may waive late fees or be willing to make different payment arrangements.
- Always check your monthly statement to verify transactions. Call your creditor right away if you suspect errors in your statement.
- Ignore offers creditors may send you to "reduce" or "skip" payments. You will still be charged interest during this period.
- Think about the cost difference if you purchase your item with cash versus if you purchase your item with credit.

Remember, if you purchase a $500 stereo with a credit card with a 20% APR, it will cost $1,084 and take 9 years to pay off if you only pay the $10 minimum monthly payments."

For Further Information

Indiana Department of Financial Institutions

402 West Washington Street
Indianapolis, Indiana 46204-2759
(317) 232-3955
Email: dkaye@dfi.state.in.us
Web Site: http://www.dfi.state.in.us
Applying for Credit at
http://www.dfi.state.in.us/conscredit/CIapplying_for_credit.htm
Credit Reporting at:
http://www.dfi.state.in.us/conscredit/CIcredit_reporting.htm.
Consumer Rights Study Unit 1 on An Overview of Consumer Credit at:
http://www.dfi.state.in.us/conscredit/StudyUnits/unit1.htm
Study Unit 5 on Fair Credit Reporting Act at:
http://www.dfi.state.in.us/conscredit/StudyUnits/unit5.htm.

Federal Deposit Insurance Corporation (FDIC)
Division of Compliance and Consumer Affairs
550 17th Street, NW
Washington, DC 20429
1-877-275-3342
Email: consumer@fdic.gov
Web Site: http://www.fdic.gov

Course Evaluation – Borrowing Basics

Instructor:________________________________**Date:**___________________

Thank you for your participation in this course. Your responses will help us improve the training for future participants. Please circle the number that shows how much you agree with each statement. Then answer the questions at the bottom of this form. If you have any questions, please feel free to ask your instructor.

	Strongly Disagree	Disagree	Agree	Strongly Agree
1. The course was interesting and kept my attention.	1	2	3	4
2. The examples in the course were clear and helpful.	1	2	3	4
3. The activities in the course helped me understand the information.	1	2	3	4
4. The slides were clear and easy to follow.	1	2	3	4
5. The take-home materials were easy to read and useful to me.	1	2	3	4
6. The instructor presented the information clearly and understandably.	1	2	3	4
7. The information / skill taught in the course is useful to me	1	2	3	4
8. I am confident that I can use the information / skill on my own.	1	2	3	4
9. I am satisfied with what I learned from this course.	1	2	3	4

What was the most helpful part of this course?

____

What was the least helpful part of this course?

____

Would you recommend this course to others?

____

Any comments or suggestions?

____

____

What Do You Know – Borrowing Basics

Instructor:______________________________________**Date:**_______________________

This form will allow you and the instructor to see what you know about borrowing basics both before and after the class. Read each statement below. Please circle the number that shows how much you agree with each statement.

	Before-the-Course				**After-the-Course**			
I know:	**Strongly Disagree**	**Disagree**	**Agree**	**Strongly Agree**	**Strongly Disagree**	**Disagree**	**Agree**	**Strongly Agree**
1. The value of credit.	1	2	3	4	1	2	3	4
2. Different types of loans.	1	2	3	4	1	2	3	4
3. How to applying for credit.	1	2	3	4	1	2	3	4
4. What a rent-to-own transaction is.	1	2	3	4	1	2	3	4
5. What a payday loan is.	1	2	3	4	1	2	3	4

NOTES

NOTES

Brochures

The following are Brochures created by the Indiana Department of Financial Intuitions on subjects covered in this course.

OPPORTUNITY. . . .

The Equal Credit Opportunity Act requires that all credit applicants be considered on the basis of their actual qualifications for credit and not be turned away because of age, gender, marital status, race, color, religion, national origin, because they receive public income such as welfare or Social Security, or because they exercise their rights under Federal credit laws such as filing a billing error notice with a creditor. A creditor may not use any of those grounds to discourage you from applying for credit; refuse you credit if you qualify; or lend you money on terms different from those granted another person with similar income, expenses, credit history, and collateral. The Act also provides that an individual may choose to rely on the credit history of a spouse or former spouse if it can be shown that the individual helped to build up that history.

QUALIFYING. . . .

Creditors determine whether or not you're a good credit risk by evaluating:

Your ability to repay, as indicated by how much of your income is left over after you pay your basic expenses every month. Creditors ask for employment information: your occupation, how long you've worked, and how much you earn. They want to know your expenses, how many dependents you have, whether you pay alimony or child support, and the amount of your other obligations.

Your assets, such as a house, bank account, or insurance policy; anything that would serve as security for the creditor if you couldn't meet your payment. Creditors want to know what you may have that could be used to back up or secure your loan and what sources you have for repaying debts other than income.

Your credit history, showing what debts you've had before and how you've managed them. They look at how much you owe, how often you borrow, whether you pay bills on time, and whether you live within your means. They also look for signs of stability: how long you've lived at your present address, whether you own or rent, and length of your present employment.

Your attitude is important, too, because the creditor has to decide whether you're the kind of individual who will act responsibly in using credit. Appearance and behavior have been known to influence a creditor's decision.

BEGINNING. . . .

You may qualify in all respects except for a credit history. Building a credit history takes time and patience. This problem affects young people just beginning careers as well as older people who have never used credit. You may have to start in a small way and build up slowly. Here are some suggestions:

Establish a savings and/or checking account. Creditors look on them as evidence that you're able to handle money.

Borrow against the security of your savings account at the bank. The interest you pay on the "passbook" loan will be partly offset by the interest your account keeps on earning, so the loan will cost you less than a regular small loan would.

Buy something on time at a major store or open a local department store charge account and pay your bills promptly. This is a stepping stone to other kinds of credit.

Apply for a gasoline credit card.

If you can't get credit on your own, you might ask a relative or a friend who already has a good credit standing to cosign your loan application and share your liability. Once you have repaid the debt, try again to get credit on your own.

If you're new in town, write for a summary of any credit record kept by a credit bureau in your former town. (Ask the bank or department store in your old hometown for the name of the agency it reports to.)

Before applying for credit, ask whether the creditor reports credit history information to credit bureaus serving your area. Most creditors do, but some do not. If possible, you should try to get credit that will be reported. This builds your credit history.

If you believe you're creditworthy, keep trying to establish your credit. Don't be discouraged. Shop around. Persistence has a way of paying off.

BENEFITS. . .WARNING. . . .

Credit is a good thing when used wisely. It lets you buy necessities when you're short of cash and luxuries when you want them. Without credit you might have to put off buying what would be useful or desirable.

But, like other good things, credit can be misused. Borrowing can be addictive and may be dangerous to your financial health.

REMEMBER. . . .

Credit isn't usually free. It's paid for by interest charges that vary with the type of creditor, kind of credit, and the time period involved.

Credit isn't more money. It's a convenience that lets you enjoy certain benefits now that you'll have to pay for later on.

It's important to keep your payments up to date. If you run into a problem because of unforeseen difficulties, discuss it with your creditors.

It's important to keep track of how much you owe overall, so that when you do get your credit established, you won't take on more debt than you can handle.

Be wary of ads that promise you "instant credit" or "a major credit card regardless of your lack of credit history or past credit record." If asked for money up-front to get you a loan, be aware, it may be a scam and you'll never see your money again and still won't have a loan.

The people who get the most out of credit understand that:

> **Credit isn't a right to be expected. It's a privilege to be protected.**

BORROWING BAROMETERS. . . .

How much debt you can handle depends on your family situation, assets, income, expenses, employment status, age, health, and a lot more. If your monthly payments are more than what's left over from your weekly paycheck after basic expenses, you may be headed for trouble.

IF YOU'RE TURNED DOWN. . . .

If you are rejected for credit, find out why. There may be reasons other than lack of credit history. Your income may not meet the creditor's minimum requirement or you may not have worked at your current job long enough. Time may resolve such problems. You could wait for a salary increase and then reapply, or simply apply to a different creditor. However, it is best to wait at least 6 months before making each new application. Credit bureaus record each inquiry about you. Some creditors may deny your application if they think you're trying to open too many new accounts too quickly.

The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

- Answers to Credit Problems
- Applying for Credit
- At Home Shopping Rights
- Bankruptcy Facts
- Buried in Debt
- Charge Card Fraud
- Choosing A Credit Card
- Co-Signing
- Credit and Divorce
- Credit Reporting and Scams
- Debt Collection Problems?
- Deep in Debt?
- Equal Credit Opportunity
- Fair Credit Reporting
- Fair Debt Collection
- Gold Cards
- Hang up on Fraud
- High Rate Mortgages
- Home Equity Credit Lines
- How to Avoid Bankruptcy
- How to Cut the Costs of Credit
- Identity Theft
- Look Before you Lease
- Mortgage Loans
- Older Consumers
- Repossession
- Reverse Mortgage Loans
- Rule of 78s – What is it?
- Secured Credit Card Scams
- Shopping for Credit
- Using Credit Cards
- Variable Rate Credit
- What is a Budget?
- What is the DFI?

Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information. You can also access information at our web site on the Internet: http://www.dfi.state.in.us, then click on Consumer Credit.

Applying for Credit

DEPARTMENT OF FINANCIAL INSTITUTIONS
Consumer Credit Division
402 West Washington Street, Room W066
Indianapolis, Indiana 46204
317-232-3955
1-800-382-4880
Web Site http://www.dfi.state.in.us

SHOP FOR YOUR CREDIT CARD

Smart consumers comparison shop when looking for credit such as a mortgage or an auto loan. It is also a good practice to engage in when choosing a credit card. The choices you make can save you money.

Shop among some of the credit card issuers listed in this brochure. Compare them with cards you already have and with offers you receive in the mail for the terms that best suit your spending and repayment habits.

Key credit terms to consider in the credit card agreement are:

Annual Fee - a flat, yearly charge similar to a membership fee. Many credit card issuers charge an annual fee for granting you credit, typically $15 to $55. Some issuers charge no annual fee.

Annual Percentage Rate (APR) - the cost of credit expressed as a yearly rate.

Finance Charge - The dollar amount you pay to use credit. Besides interest costs, it may include other charges associated with transactions such as cash advance fees.

Transaction Fees and Other Charges- Some issuers charge a fee if you use the card to get a cash advance, if you fail to make a payment on time, or if you exceed your credit limit. Some may charge a flat fee every month whether you use the card or not.

Grace Period - A time, usually 25 days, during which you can pay your credit card bill without paying a finance charge.

Average Daily Balance - A balance calculation method most creditors use in calculating their finance charge. The average daily balance is calculated by adding each days balance and dividing the total by the number of days in the billing cycle.

Adjusted Balance Method - This balance used to calculate the finance charge is derived by subtracting the payments you've made from the previous balance. This method is most favorable to the customer.

CREDIT CARD FEATURES TO CONSIDER

Smart consumers find the best deal for their budgets and repayment styles. If you always pay your monthly bill/s in full, the best type of card is one that has no annual fee and offers a grace period for paying your bill without paying a finance charge.

If you don't always pay off the credit card balance/s at the end of the month, be sure to look at the annual percentage rate.

Example:

Terms	Card A	Card B
Average monthly balance	$2,500	$2,500
APR	x .18	x .14
Annual finance charges	$ 450	$ 350
Annual fee	+ $20	-0-
Total Cost	$ 470	$ 350

Other features to consider are enhancements to the credit card that the issuer offers. Enhancements can include cash rebates, purchase protections, warranty guarantees, and usage incentives such as frequent flyer miles.

CREDIT CARD PLANS

The following credit card list is subject to change. Readers are encouraged to contact the credit card issuer for current rates and to learn about their other credit plans.

Codes Used in the Credit Card Plan List:

M = Master Card F = fixed rate
V = Visa V = variable rate
N = national R = only in selected states
T = tiered pricing, different rates for balance levels
State abbreviation = only in state specified
(G) = Gold Card (P) = Platinum Card

Institution, Plan & Availability	APR	Grace Period Days	Annual Fee	Telephone
Abbott Bank,MC,N	17.60V	25	0	800-426-6420
AFBA Ind Bk, V, N	VPrime +3.49	25	0	800-776-2265
Amalgamated Bk, M, N	VPrim + 4.5	25	0	800-723-0303
Baybank, M, N	16.90V	0	$21	800-221-3393
Capital One (P)	9.9 Cash adv. 19.8	25	0	800-822-3397
Central Carolina, M, N	VPrime + 2.5	25	$29	800-334-1073
Chevy Chase Bk, V, N	V Prime + 5.15	25	$20	800-937-5000
Citibank, V, N	V Prime + 9.4	25	0	800-950-5114
Citizens TC, V, N	V Prime +7.15	25	0	800-922-9999
Columbus Bk, V, N	14.9V	25	12	800-348-8900
Crestar Bk, V, N	V Prime + 6.9	25	20	800-368-7700
FCC NB, V, N	V Prime + 9.9	25	0	800-368-4535
Fifth Third Bk, M, R	V Prime + 5.9	25	18	800-472-3030
1st of Am. Bk, M, N	V Prime + 8.4	25	0	800-423-3883
1st USA Bk, V, R	13.99F	25	0	800-955-9900
1st USA Bk, (P)	9.99	25	0	800-294-2993
GE Capital, M, N	19.8F	25	0	513-677-6736
Household Bk, V, N	15.65V	25	15	800-477-6000
Huntington Bk, V, IN (P)	V Prime	25	75	800-480-2265
Huntington Bk, V, IN (G)	V Prime + 1	25	49	800-480-2265
Huntington Bk, V, IN (G)	V Prime + 4.49	25	0	800-480-2265
Mellon Bk, M, N	V Prime + 8.25	20	35	800-753-7011
NBD, Skokie V, R	V Prime + 8.25	15	0	800-766-4623
Oak Brook Bk, M, N	V Prime + 4.9	25	17	800-666-1011
Peoples Bk, V, N	13.90F	25	25	800-426-1114
Providian Ban Cor, V, R	13.9V	25	0	800-964-6000
Pulaski Bank & Trust	9.45	25	50	800-980-2265
Pullman Bank & Trust (G)	VPrime +3	25	0	800-785-5626
Security NB, V, R	12.87V	25	18	800-356-8085
Simmons First Nat'l (G)	9.5	25	50	800-636-5151
Union Fed, V, IN	11.5F	25	0	800-284-8835
Union Planters, M,N	V Prime +3.75	25	29	918-664-1400
USAA Savings (G, P)	VPrime + 1	25	45	800-022-9092

The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

- Answers to Credit Problems
- Applying for Credit
- At Home Shopping Rights
- Bankruptcy Facts
- Buried in Debt
- Car Financing Scams
- Charge Card Fraud
- Choosing A Credit Card
- Co-Signing
- Credit and Divorce
- Credit and Older Consumers
- Deep in Debt?
- Equal Credit Opportunity
- Fair Credit Reporting
- Fair Debt Collection
- Gold Cards
- Hang up on Fraud
- High Rate Mortgages
- Home Equity Credit Lines
- How to Avoid Bankruptcy
- Indiana Uniform Consumer Credit Code
- Look Before you Lease
- Mortgage Loans
- Repossession
- Reverse Mortgage Loans
- Rule of 78s – What is it?
- Scoring for Credit
- Shopping for Credit
- Using Credit Cards
- Variable Rate Credit
- What is a Budget?
- What is the DFI?

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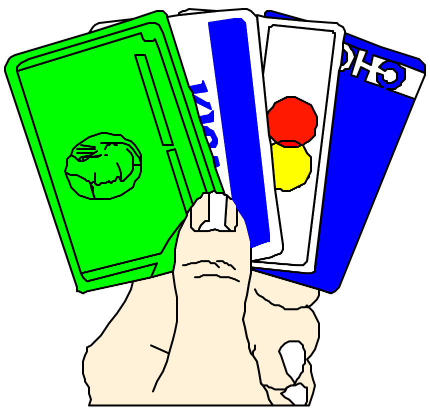
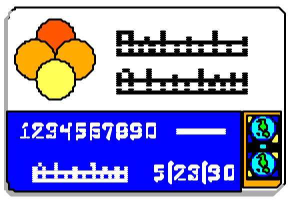
CHOOSING A CREDIT CARD



DEPARTMENT OF FINANCIAL INSTITUTIONS
Consumer Credit Division
402 West Washington Street, Room W066
Indianapolis, Indiana 46204
317-232-3955
1-800-382-4880
Web Site http://www.dfi.state.in.us

Most credit cards are unsecured. However, there are three ways in which some credit card lenders take collateral.

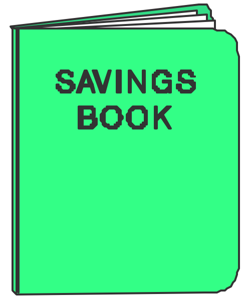


#1 SECURITY INTEREST IN ITEMS PURCHASED

Some credit card lenders, usually store credit such as Sears, claim to take collateral in items purchased with their card. This means that if you have problems making payments, those lenders may threaten to repossess property bought with the card. In addition, personal property collateral may affect your rights if you later need to file bankruptcy.

Most threats to repossess personal property are not carried out. Nevertheless, it is a good idea to know whether the security interest exists. If it does, use another card in preference to that card whenever possible.

#2 YOUR BANK ACCOUNT



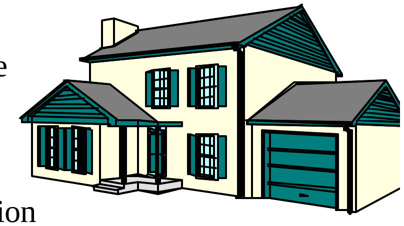
Another type of credit card taking a security interest involves card balances secured by a bank deposit. The card allows you a credit limit up to the amount you have on deposit in a particular bank account. If you can't make the payments, you lose the money in the account.

These cards are usually marketed as a good way to establish credit or to reestablish credit if you have had financial problems. They may be useful to establish that you can make regular monthly payments on a credit card after you have had problems in the past.

However, since almost everyone now gets unsecured credit card offers even after previous financial problems, there is less reason to consider allowing a creditor to use your bank deposits as collateral.

It is preferable not to tie up your bank account or to pay interest to a lender for the privilege of establishing that you can afford to make payments.

#3 HOME EQUITY LINE OF CREDIT



Finally, there are increasing opportunities to obtain credit cards in connection with a home equity line of credit. Each time you use the card, the balance is secured against your home.

In many cases these are sold by home improvement contractors as a good way to pay for home improvements. Sometimes the initial amount advanced on such a card is as much as your credit limit.

Home secured credit cards are almost always a bad idea. You should always seek to avoid using high-rate credit secured by your home because the potential consequence of nonpayment if you have financial problems is loss of your family's shelter by foreclosure. You will likely do better if you seek a more traditional home equity credit line from a bank at a lower rate of interest.

In general, all things being equal, you should seek and use credit cards which do not take collateral in preference to those that do. Since interest rates on cards that do take collateral are typically just as high as those on cards that do not, the choice in favor of unsecured cards should be clear.

The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

- Answers to Credit Problems
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CREDIT CARDS THAT TAKE SECURITY INTERESTS

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317-232-3955, 1-800-382-4880
Web Site http://www.dfi.state.in.us

FAST FACTS

✳ Sign your new cards as soon as they arrive.

✳ Avoid signing a blank receipt, whenever possible. Draw a line through blank spaces above the total when you sign card receipts.

✳ Save your card receipts to compare with your billing statements.

✳ Open billing statements promptly and reconcile your card accounts each month, just as you would your checking account.

✳ Report promptly and in writing any questionable charges to the card issuer.

✳ Never lend your card/s to anyone.

✳ Never give your number over the phone unless you are initiating a transaction with a company you know is reputable.

Everyone pays for credit and charge card fraud in higher prices, whether or not they are personally defrauded.

While theft is the most obvious form of credit and charge card fraud, fraud occurs in other ways, as well. For example, someone may use your card number (not the card itself) without your permission. This may occur in a variety of ways:

✳ A thief rifles through trash to find discarded receipts or carbons to use the card numbers illegally.

✳ A dishonest clerk makes an extra imprint from your credit card or charge card for his or her personal use.

✳ You receive a postcard or a letter asking you to call an out-of-state number to take advantage of a free trip or a bargain-priced travel package. When you call, you are told you must join the travel club first. You are asked for your credit card number so you can be billed for the membership fee. The catch? New charges continue to be added at every step and you never get your free or bargain-priced vacation.

How to Guard Against Credit and Charge Card Fraud

Here are some suggested precautions you can take to help protect yourself against credit and charge card fraud. You also may want to instruct any other person who is authorized to use your account to take the same precautions.

- Sign your new cards as soon as they arrive.
- Carry your cards separately from your wallet.
- Keep a record of your card numbers, their expiration dates, and the phone number and address of each company in a secure place.
- Keep your card in view, whenever you can, after you give it to a clerk. Retrieve your card promptly after using it.
- Always keep your credit cards in a safe place. Check periodically to make sure that none are missing.
- Avoid signing a blank receipt, whenever possible. Draw a line through blank spaces above the total when you sign card receipts.
- Don't leave your receipt in the bag when you have made a purchase.
- Void or destroy all carbons and incorrect receipts.
- Save your card receipts to compare with your billing statements.
- Open billing statements promptly and reconcile your card accounts each month, just as you would your checking account.
- Report promptly and in writing any questionable charges to the card issuer.
- Notify card companies in advance of a change in address.
- Cut up your expired or cancelled credit cards before you throw them out.
- Destroy anything with your credit card number on it before you throw it away.

In addition, here are some things you should **not** do:

- Never lend your card(s) to anyone.
- Never leave your cards or receipts lying around.
- Never put your card number on a postcard or on the outside of an envelope.
- Never give your number over the phone unless you are initiating a transaction with a company you know is reputable. If you have questions about a company, check with your local consumer protection office or Better Business Bureau before ordering.
- Never give out your Social Security number over the phone to someone you don't know.
- Don't print your Social Security number on your checks.

What To Do If Your Cards Are Lost or Stolen

If your credit or charge cards are lost or stolen, call the issuer(s) immediately. Most card companies have a toll-free number for reporting missing cards. Some companies provide 24-hour service. By law, once you report the loss or theft, you have no further liability for unauthorized charges. In any event, your maximum liability under federal law is $50 per card.

What To Do About Suspected Fraud

If you suspect that someone has illegally used your credit card, Report it to the police and call the card issuer immediately. Use the special telephone number that many card issuers list on their billing statements. You also may want to follow up your phone call with a letter.

You may be asked to sign a statement under oath that you did not make the purchase(s) in question, but you cannot be required to do so.

You should also contact the three major credit reporting agencies to alert them to the fraudulent use of your card. They have special fraud units established to assist consumers. They are Equifax (800-685-1111),Trans Union (800-888-4213), and Experian (800-682-7654). You can contact the Associated Credit Bureaus web site at www.acb-credit.com.

The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

- Answers to Credit Problems
- Applying for Credit
- At Home Shopping Rights
- Bankruptcy Facts
- Buried in Debt
- Car Financing Scams
- Choosing A Credit Card
- Co-Signing
- Credit and Divorce
- Credit and Older Consumers
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- Reverse Mortgage Loans
- Rule of 78s – What is it?
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- Variable Rate Credit
- What is a Budget?
- What is the DFI?

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CREDIT & CHARGE CARD FRAUD

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317-232-3955
1-800-382-4880
Web Site http://www.dfi.state.in.us

WHAT IS A CREDIT REPORT?

Your credit report contains important information about you. It generally includes facts about your identity, where you work, live, your bill-paying habits, and public record information. Credit grantors use credit reports to determine whether or not you will be extended credit. Identity information includes your name, address, marital status, Social Security number, date of birth, number of dependents, and previous addresses. Employment data includes your present position, length of employment, income, and previous jobs. Factual information about your credit history consists of your credit experiences with specific credit granters. Public record information includes civil suits and judgments, bankruptcy records or other legal proceedings recorded by a court. A credit report does not contain information on arrest records, specific purchases, or medical records.

Companies called credit reporting agencies or credit bureaus compile and sell your credit report to businesses, which use it to evaluate your applications for credit, insurance, employment, and other purposes allowed by federal law. Therefore, it is important that your credit report contain complete and accurate information.

It is advisable that you review your credit report every three or four years to check for inaccuracies or omissions. You also may want to check your report sooner if you are considering a major purchase, such as buying a home.

HOW CAN I OBTAIN A CREDIT REPORT?

If you have been denied credit, insurance, or employment because of information that was supplied by a credit reporting agency, the Fair Credit Reporting Act requires the report recipient to give you the name and address of the credit reporting agency that supplied the information within 30 days after the credit was denied. If you contact that agency within 60 days of receiving the denial notice, you can receive a **free copy** of your credit report.

If you simply want a copy of your report, call the credit reporting agencies listed in the Yellow Pages under "credit" or "credit rating and reporting." Call each credit report agency listed since more than one agency may have a file on you, some with different information. You may have to pay a reasonable charge for each report.

Three large national credit bureaus supply most credit reports: Experian, Equifax, and Trans Union. You may want to contact each of them for a copy of your report.

Experian (Formerly TRW) http://www.experian.com
P.O. Box 949
Allen, TX 75013-0949
(888)397-3742
Free

Equifax Credit Information Services, Inc. http://www.equifax.com
P.O. Box 740241
Atlanta, GA 30374-0241
(800) 685-1111
$8 Fee

Trans Union Corporation http://www.transunion.com
Trans Union Consumer Relations
760 West Sproul Road, P.O. Box 390
Springfield, PA 19064-0390
(800) 916-8800
$8 Fee

When you show proper identification, the credit reporting agency must then disclose to you all its information and identify the sources of that information. The law requires the credit bureau to disclose the "nature and substance" of the information in the file. You must also be informed about anyone who obtained reports for employment purposes in the past two years, plus the names of all others who requested credit reports or other information about you in the past six months.

A consumer reporting agency will send a **free report** once in any 12-month period upon request of a consumer **if** the consumer is unemployed and intends to apply for employment in the 60-day period beginning on the date on which the certification is made, is a recipient of public welfare assistance, or has reason to believe that the file on the consumer at the agency contains inaccurate information due to fraud.

HOW CAN I CORRECT ERRORS ON MY CREDIT REPORT?

You have the right, under the Fair Credit Reporting Act, to dispute the completeness and accuracy of information in your credit file. When a credit reporting agency receives a dispute, it must reinvestigate and record the current status of the disputed items within a "reasonable period of time," unless it believes the dispute is frivolous or irrelevant."

If the credit reporting agency cannot verify a disputed item, it must delete it.

If your report contains erroneous information, the credit reporting agency must correct it. For example, if your file showed an account that belongs to another person, the credit reporting agency would have to delete it.

If an item is incomplete, the credit reporting agency must complete it. For example, if your file shows you were late in making payments on accounts, but failed to show that you were no longer delinquent, the credit reporting agency must show that your payments are now current.

At your request, the credit reporting agency must send a notice of correction to any report recipient who has checked your file in the past six months.

WHAT CAN I DO IF I HAVE A DISPUTE?

You must make your dispute directly to the credit reporting agency. Although the Fair Credit Reporting Act does not require it, the Federal Trade Commission staff recommends that you submit your dispute in writing, along with copies (NOT originals) of documents that support your position.

In addition to providing your complete name and address, your letter should clearly identify each item in your report you dispute; explain why you dispute the information; state the facts; and request deletion or correction. You may want to enclose a copy of your report with the items in question circled.

Send your dispute by certified mail, return receipt requested and keep copies of your dispute letter and enclosures.

DUTY TO CORRECT AND UPDATE INFORMATION ..

A person who furnishes information to one or more consumer reporting agencies and has furnished to a consumer reporting agency information that the person determines is not complete or accurate, shall promptly notify the consumer reporting agency of that determination and provide any corrections to that information to the agency and any additional information that is necessary to make the information provided by the person to the agency complete and accurate. The person shall not thereafter furnish to the agency any of the information that remains not complete or accurate.

CLOSED ACCOUNTS. . . .

A person who regularly and in the ordinary course of business furnishes information to a consumer reporting agency regarding a consumer who has a credit account with that person shall notify the agency of the voluntary closure of the account by the consumer, in information regularly furnished for the period in which the account is closed.

YOUR SIDE OF THE STORY. . . .

If a reinvestigation does not resolve your dispute, you can file a statement of up to 100 words to explain your side of the story. The credit reporting agency must include this explanation in your report each time it sends the report out. As well as to each report made within 60 days prior to your request. Credit reporting agency employees often are available to help you word your statement.

ARE ALL MY ACCOUNTS LISTED IN MY CREDIT REPORT?

Most credit grantors report their data to credit bureaus at least monthly. Some smaller lenders, however, do not report information to credit bureaus.

HOW LONG WILL INFORMATION STAY ON MY REPORT?

Be aware that when negative information in your report is accurate, only the passage of time can assure its removal. Credit reporting agencies are permitted by law to report bankruptcies for 10 years and other negative information for 7 years.

Also, any negative information may be reported indefinitely for use in the evaluation of your application for:

- $150,000 or more in credit;.

- a life insurance policy with a face amount of $150,000 or more; or

- consideration for a job paying $75,000 or more.

ADDING ACCOUNTS TO YOUR FILE...

Your credit file may not reflect all of your credit accounts. Although most national department stores and all-purpose bank credit card accounts will be included in your file, not all creditors supply information to credit reporting agencies.

If you have been told that you were denied credit because of an "insufficient credit file" or "no credit file" and you have accounts with creditors that do not appear in your credit file, you can ask the credit reporting agency to add this information to future reports. Although they are not required to do so, many credit reporting agencies will add other verifiable accounts for a fee.

WHAT ABOUT A CREDIT REPAIR COMPANY?

It is recommended that a credit repair company be looked at long and hard before being used. The law gives a consumer certain rights to accuracy in the credit report. If a credit report is repairable, it can be done by the consumer. If it contains accurate, negative information, handing money to a credit repair company will not help. They cannot remove accurate information or information you cannot have removed.

WHO CAN ORDER MY CREDIT REPORT?

There are limited circumstances under which a credit bureau may furnish consumer credit reports. These permissible purposes are:

- In connection with credit or collection transactions.
- For employment purposes.
- For the underwriting of insurance.
- For the determination of a consumer's eligibility for a license.
- Other legitimate business transactions initiated by you.
- To review an account to determine whether you continue to meet the terms of the account.
- Court orders meeting specific requirements.
- At the your written instruction.

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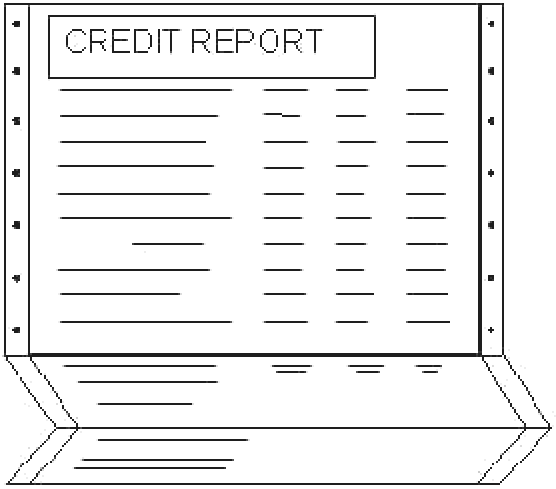
FAIR CREDIT REPORTING



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FAST FACTS

✓Credit scoring is a system used by some creditors to determine whether to give you a loan or credit card.

✓To develop a system, a creditor will use statistical methods to identify and weigh characteristics based on how well each predicts who would be good a credit risk.

✓With credit scoring systems, creditors are able to evaluate millions of applicants consistently and impartially on many different characteristics.

How does a creditor decide whether to lend you money for such things as a new car or a home mortgage? Many creditors use a system called "credit scoring" to determine whether you are a good credit risk. Based on how well you score, a creditor may decide to extend credit to you or turn you down. The following questions and answers may help you understand who gets credit, and why.

What is credit scoring?

Credit scoring is a system used by some creditors to determine whether to give you a loan or credit card. The creditor may examine your past credit history to evaluate how promptly you pay your bills and look at other factors as well, such as the amount of your income, whether you own a home, and how many years you have worked at your job. A credit scoring system awards points for each factor that the creditor considers important. Creditors generally offer credit to those consumers awarded the most points because those points help predict who is most likely to pay back the debt.

Why is credit scoring used?

In smaller communities, shopkeepers, bankers, and others who extend credit often knew by word of mouth who paid their debts and who did not. As some creditors became larger and as the number of their consumer credit applications grew, these creditors needed to establish more systematic and efficient methods for evaluating which consumers were good credit risks. Credit scoring is one such technique.

Although smaller creditors still may rely on informal credit evaluations, many large companies now use formal credit scoring systems. Although no system is perfect, credit scoring systems can be at least as accurate as informal methods for granting credit — and often are more so — because they treat all applicants objectively.

How is a credit scoring system developed?

Most credit scoring systems are unique because they are based on a creditor's individual experiences with customers. To develop a system, a creditor will select a random sample of its customers and analyze it statistically to identify which characteristics of those customers could be used to demonstrate creditworthiness. Then, again using statistical methods, a creditor will weigh each of these factors based on how well each predicts who would be a good credit risk.

How is a consumer's application scored?

To illustrate how credit scoring works, consider the following example that uses only three factors to determine whether someone is creditworthy. (Most systems have 6 to 15 factors.)

Example:

FACTORS	POINTS	FACTORS	POINTS
MONTHLY INCOME:		**AGE:**	
Less than $400	0	21-28	11
$400 to $650	3	28-35	5
$651 to $800	7	36-48	2
$801 to $1,200	12	48-61	12
$1,200 +	15	61 +	15
TELEPHONE			
in Home Yes	12	No	0

Some credit scoring systems award fewer points to people in their thirties and forties, because these individuals often have a relatively high amount of debt at that stage of their lives. The law permits creditors using properly-designed scoring systems to award points based on age, but people who are 62 or older must receive the maximum number of points for this factor.

If, for example, you needed a score of 25 to get credit, you would need to make sure you had enough income at a certain age (and, perhaps a telephone) to qualify for credit. Remember, this example shows very generally how a credit scoring system works. Most credit scoring systems consider more factors than this example — sometimes as many as 15 or 20. Usually these factors are obviously related to your credit worthiness. Sometimes, however, additional factors are included that may seem unusual. For example, some systems score the age of your car. While this may seem unrelated to creditworthiness, it is legal to use factors like these as long as they do not illegally discriminate on race, sex, martial status, national origin, religion, or age.

How valid is the credit scoring system?

With credit scoring systems, creditors are able to evaluate millions of applicants consistently and impartially on many different characteristics. But credit scoring systems must be based on large enough numbers of recent accounts to make them statistically valid.

Although you may think that such a system is arbitrary or impersonal, a properly developed credit scoring system can make decisions faster and more accurately than an individual can. And many creditors design their systems so that marginal cases — not high enough to pass easily or low enough to fail definitively — are referred to a credit manager who personally decides whether the company will extend credit to a consumer. This may allow for discussion and negotiation between the credit manager and a consumer.

What happens if you are denied credit?

While a creditor is not required to tell you the factors and points used in its scoring system, the creditor must tell you why you were rejected for credit. This is required under the federal Equal Credit Opportunity Act (ECOA).

So if, for example, a creditor says you were denied credit because you have not worked at your current job long enough, you might want to reapply after you have been at that job longer. Or, if you were denied credit because your debt-free monthly-income was not high enough, you might want to pay some of your bills and reapply. Remember, also, that credit scoring systems differ from creditor to creditor, so you might get credit if you applied for it elsewhere.

Sometimes you can be denied credit because of a bad credit report. If so, the Fair Credit Reporting Act requires the creditor to give you the name and address of the credit reporting bureau that reported the information. You might want to contact that credit bureau to find out what your credit report said. This information is free if you request it within 30 days of being turned down for credit. Remember that the credit bureau can tell you what is in your report, but only the creditor can tell you why it denied your application.

Where can you go for more information?

If you have additional questions about credit scoring issues, write to: Correspondence Branch Federal Trade Commission Washington, D.C. 20580 http://www.ftc.gov. While the FTC cannot resolve individual problems for consumers, it can act when it sees a pattern of possible law violations.

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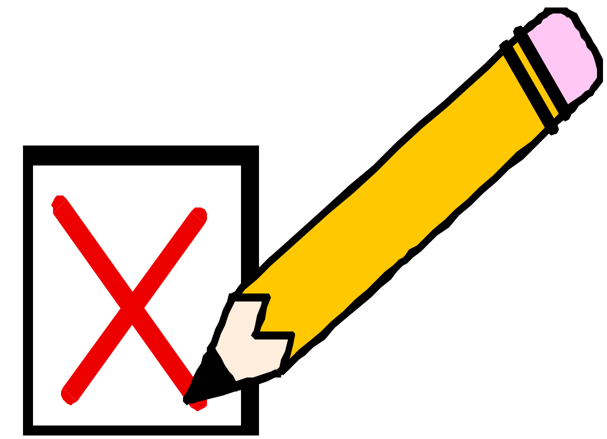
SCORING FOR CREDIT



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When you are planning on purchasing a home, the first thing you should do is apply for a mortgage loan. Having a preapproved mortgage loan has many advantages. The lender can help you determine the price range of a home you can afford and how much money you will need for a down-payment and closing costs.

Shop for a loan, not a lender. You may have a long-term relationship with your bank, but that doesn't mean they will give you the best deal. Most loans are sold on the secondary market, so the financial institution that gives you the loan might not be the one that owns and services it for the next 30 years.

The more knowledgeable you are before you approach lenders, the better deal you're likely to get. Look in your local paper to see what rates are being offered. Interview lenders over the telephone before meeting with them in person. Find out if they are the actual lender or a broker. A mortgage broker acts as a third party between you and the lender and there will be extra fees for his services.

Do a background check on the lender you choose. It's crucial that you check out a company's past.

WHAT INFORMATION SHOULD YOU TAKE TO THE LENDER?

Your lender will need to know how much money you have coming in and how much money you pay out in expenses each month. When you apply for a mortgage loan, take the following information with you:

◆ Your address(es) for the past two years. If you're renting now, bring the name and address of your landlord.

◆ Your employer(s) for the last two years. Bring your pay stubs for the past few months.

◆ Bring a copy of your tax forms for the last two years; any divorce papers to show alimony or child support you receive; retirement benefit information; and information on any other income you have. If you are self-employed, you will need a certified profit and loss statement.

◆ Bank account numbers and balances as well as information about any other savings or investments you have.

◆ The year, make, and value of any vehicles you own. If your vehicles are financed, information on the finance company and payment amounts.

◆ Information about all your debts or bills, account numbers and how much you owe.

◆ If you have ever filed for bankruptcy, be sure to bring the bankruptcy petition or discharge.

◆ If you are a veteran, bring your certificate of eligibility or discharge form.

◆ Bring identification with your picture on it and your social security number.

WHAT QUESTIONS SHOULD YOU ASK?

Different kinds of mortgages and different programs are available to help you buy a home. Here are some questions you should ask:

Are you a mortgage broker or a mortgage lender? With lenders other than banks, it's hard to tell. A mortgage broker does not make the loan; they act as an agent for the customer to find a mortgage lender and there is an extra fee for their service. The mortgage lender is the company actually making the loan.

What is the note rate and what is the annual percentage rate? The note rate is the rate of interest contracted for during the term of the loan. The annual percentage rate is the yearly rate for all finance charges, interest as well as prepaid finance charges.

Is the rate fixed or adjustable? A fixed rate mortgage has the same rate for the full term of the loan. An adjustable mortgage rate can change based upon the changes in the index the loan's rate is based on. Your interest can increase or decrease depending on the index and the terms of your contract. Your monthly payments can also be increased or decreased.

Will I have to pay "points" (prepaid finance charges)? If so, how much? A point is one percent of the mortgage loan paid up front by the buyer or seller to the lender.

How much will the closing costs be? Lenders impose fees for various items such as the credit report, title examination, abstract of title, title insurance, property survey, appraisal, notary, and fees for preparing deeds, mortgages, settlement, and similar documents.

How long after I apply will the rate be guaranteed (locked in)? Some lenders will guarantee or lock in a rate for a period of time others will not. If they do, be sure to get it in writing.

How long will it take to process my mortgage application.

What is the required down payment? VA loans do not require a down payment. Down payments are a percentage of the value of the home.

What type of mortgage is it? Is it a VA, FHA, or conventional mortgage? VA and FHA mortgages are federally insured; conventional loans are not federally insured. VA loans do not require mortgage insurance; FHA and conventional loans have mortgage insurance premiums added to the interest and principal payments unless you have a large down-payment (20% or more).

What is the term of the loan and how much will my mortgage payment be each month? (including principal, interest, taxes, and insurance)

What will I have to pay up front? Funds due at closing usually include closing costs and points (prepaid finance charges based on a percent of the loan amount). Closing costs include credit reports, appraisal fees, document preparation, settlement charges, title insurance, etc.

Is there a prepayment penalty, if so, how much?

ADJUSTABLE RATE Vs FIXED RATE MORTGAGES

Fixed-rate loans look like a good bet these day and the spread compared with adjustable rate loans has dropped below 2 percentage points, making the fixed rate loan a better value. Adjustable rate mortgages (ARM) still deserve consideration.

They are easier to qualify for, have lower starting interest rates and often have lower loan fees. If you plan to move within five years, an ARM will probably be cheaper than a fixed rate loan. A compromise could be a so-called hybrid ARM which offers fixed payments for three to seven years and then adjusts to current interest rates.

Adjustable Rate Mortgages

If the rate is adjustable, you should ask the following questions:

How often can the interest rate change?

How much can the rate increase or decrease at each adjustment period?

How much can the rate increase or decrease during the life of the loan?

What is the index for the mortgage and where is it published?

How has the index changed in the past? The lender must give you examples of rate changes when you apply for an adjustable rate mortgage.

Can I change the ARM to a fixed rate loan during the life of the loan? If I can, when would I be permitted to make a change?

How much would it cost me to change from a fixed rate mortgage to an adjustable rate mortgage? Often adjustable rate mortgages offer a lower or discounted rate for the first year or two of the loan; making the payments lower for that period. You should make sure you understand how the rate and payments will increase after the discounted rate period.

UNPLEASANT SURPRISES

Too often when you sit down to sign the loan documents you discover that the interest rate, points or some other feature is not what you expected. Borrowers are at their most vulnerable point when sitting down to sign the paperwork. A shady lender may try to exploit this disadvantage. There are some steps you can take to reduce your risks.

After your loan is first approved, get a loan agreement in writing. It should spell out the size, interest rate, fees, and other details of the loan. If possible include an expected closing date. Get the rate lock-in in writing too. Otherwise, the interest rate on your loan my be subject to change until the day you sit down to sign.

Get a receipt for all fees that you must pay up front, including the terms under which the money will be refunded in the event that the loan doesn't close.

Be wary of lenders or brokers who won't back up that they say in writing.

REMEMBER, your home is likely to be the most expensive investment that you will ever make. Differences in mortgage terms can result in thousands of dollars of savings to you.

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MORTGAGE LOANS

APPLY BEFORE YOU BUY

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Web Site http://www.dfi.state.in.us

When you don't have the money you need to pay a bill or several bills, why not go to the lender who makes it easy to get a loan? Why not? Because you will be paying a very high interest rate. Under the Truth in Lending Act, the cost of the payday loans, like other types of credit, must be disclosed. Among other information, you must receive, in writing, the finance charge (a dollar amount) and the annual percentage rate or APR (the cost of credit on a yearly basis). Consider that a $33 fee charged on a $100 payday loan for two weeks, would be 860.36% annual interest rate or APR. The same loan for one week would have an APR of 1,720.71%. **Indiana's new maximum charge for a $100 loan is $15.00 for a term of 14 days for an APR of 390%**

Check cashers, banks, and other companies are making small-sum, short-term, very high rate loans that go by a variety of names: "payday loans," "cash-advance loans," "check-advance loans," postdated check loans," or "deferred-deposit check loans."

Typically, you write a personal check payable to the lender for the amount you wish to borrow plus a fee. The check may be postdated for a future day when you are due to repay the loan, which is generally 1 or 2 weeks from the day you are writing the check. If you extend or "roll-over" the loan, you will pay the fees for each extension. In the above example, if the $100 loan was rolled-over three times, the finance charges paid would have been $99 and the debtor would still owe the $100.00. **In Indiana, a $100 loan renewed three times would result in $41.25 finance charges with a $25.00 reduction in principal and a balance still owing of $75.**

What are the consequences?

- The cost of the loan is very high.
- Once you get a loan, where will you get the additional money to pay it off?
- You can be threatened with prosecution for "hot" or "bounced" checks, even though the lender knew at the time you wrote the check that you had insufficient funds in your account—that was the reason for the loan.
- If you pay another fee to renew the loan for another term, you may get caught in a cycle of debt. You are never able to pay down the principal, but you are repaying the fee over and over again. The result can be that you are paying an annual percentage rate on the loan of well over 1000 percent!

WHAT ARE YOUR ALTERNATIVES?

There are other options. Consider the following possibilities:

- When you need a loan, shop carefully. Look for the credit offer with the lowest APR. Some banks, credit unions, or small lending companies will make small loans at reasonable interest rates.
- Find out about overdraft protection at your bank if you are concerned about inadvertently overdrawing on your account. If you are regularly using most or all of the funds in your account and if you make a mistake in your checking (or savings) account records, overdraft protection can help protect you from further credit problems. Find out the terms of overdraft protection.
- A cash advance on a credit card may also be a possibility, but it may have a higher interest rate than your other sources of funds. Find out the terms before you decide.
- Borrow from a friend or family member.
- Check with your employer for a possible pay advance.
- Ask a current creditor if you could defer or skip a payment. The fee for the skipped payment will be far less than the charges for a payday loan.
- Make a realistic budget and figure your monthly and daily expenditures. Avoid unnecessary purchases - even small daily items. Their costs add up. See our Brochure on What is a Budget?

Before getting a loan at a high interest rate, consider your other options. If you decide you must use a payday loan, borrow only as much as you can afford to pay with your next paycheck and still have enough to make it to the next payday.

What can you do next?

If you frequently find you are just a little short of cash each month or can't pay unexpected bills, have you looked at your income and expenses? Can you develop a savings plan? If you track where you spend your money, you may find ways to save. Are there some purchases you don't have to make?

With just $300 in a savings account, you may avoid going to a payday lender if you have a financial emergency. Instead of paying a fee, you will be earning interest on your money until you need it .This can give you a buffer against financial emergencies.

If you need help in preparing a spending plan or budget, you can get it from a cooperative extension agent or a nonprofit credit counseling agency in your area. There are non-profit groups in every state that offer credit guidance to consumers. These services are available at little or no cost. Check your telephone company's yellow pages, or see "For More Information" below.

To complain

If you believe a lender has violated the Truth in Lending Act, you can file a complaint with the Federal Trade Commission (FTC) by contacting the Consumer Response Center by phone: toll-free 1-877-FTC-HELP (382-4357): TDD: 202-326-2502; by mail: Consumer Response Center, Federal Trade Commission, 600 Pennsylvania Avenue, N. W., Washington DC 20580; or by e-mail: use the online complaint form at www.ftc.gov . Although the Commission cannot resolve individual problems for consumers, it can act against a company if it sees a pattern of possible law violations.

FOR MORE INFORMATION

Web Resources:

Consumer Federation of America (CFA)
www.consumerfed.org /

The CFA has done an extensive study on payday lenders. You can obtain a copy from its Web site. See the publications list under "Safe Harbor for Usury: Recent Developments in Payday Lending."

Cooperative Extension Agents
www.reeusda.gov (Click on "State Partners")

Cooperative extension agents are affiliated with land-grant universities. Some of these professionals provide money management education. Check with the university in your area to determine if there is an individual who can assist you.

Debt Counselors of America
www.getoutofdebt.org

This Internet-based, nonprofit organization sells inexpensive educational materials on money management and helps individuals develop plans to repay their debts.

National Foundation for Consumer Credit (NFCC)
www.nfcc.org

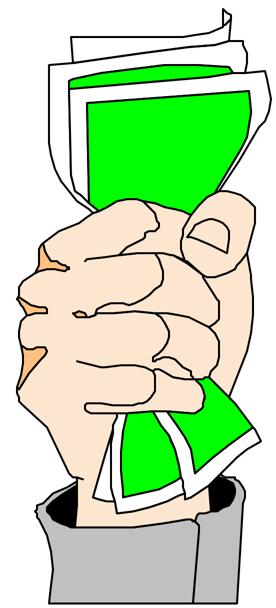
The NFCC is a nationwide network of nonprofit budget and debt-counseling agencies in almost 1500 locations. The agencies provide educational programs and individual counseling sessions, either in-person or by phone and mail. They teach people basic money management skills, such as handling credit, and assist them in resolving debt problems. Counseling sessions may be free or charge a reasonable fee.

The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

Answers to Credit Problems
Applying for Credit
At Home Shopping Rights
Bankruptcy Facts
Buried in Debt
Car Financing Scams
Charge Card Fraud
Choosing A Credit Card
Co-Signing
Credit and Divorce
Credit and Older Consumers
Deep in Debt?
Equal Credit Opportunity
Fair Credit Reporting
Fair Debt Collection
Gold Cards
Hang up on Fraud
High Rate Mortgages
Home Equity Credit Lines
How to Avoid Bankruptcy
Indiana Uniform Consumer Credit Code
Look Before you Lease
Mortgage Loans
Repossession
Reverse Mortgage Loans
Rule of 78s – What is it?
Scoring for Credit
Shopping for Credit
Using Credit Cards
Variable Rate Credit
What is a Budget?
What is the DFI?

Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information. You can also access information at our web site on the Internet: http://www.dfi.state.in.us, then click on Consumer Credit.

PAYDAY LOANS = COSTLY CASH



DEPARTMENT OF FINANCIAL INSTITUTIONS
Consumer Credit Division
402 West Washington Street, Room W066
Indianapolis, Indiana 46204
317-232-3955
1-800-382-4880
Web Site http://www.dfi.state.in.us

If you find the idea of renting to own (RTO) appealing, you should shop around the rent to own businesses just like you would if making a purchase for cash. Call each company and find out what kind of terms and conditions they offer, such as:

Total of Payments (as compared to the price one would pay by cash or store credit). Remember that the real total price for an RTO contract is determined by multiplying the amount of each rental payment times the number of payments required to become the owner of the item at the end of the lease.

Does the company guarantee that the items being rented are new? The lessor must state whether the item is new or used. If the item is used, you should decide whether the payments total a fair cost for the used item.

Even though the company may provide repairs at no charge, does it also provide a substitute at no extra charge or stop payments during the repair period?

Does the company require the renter to purchase insurance on the rented item, even though the consumer may already have home coverage?

INDIANA RENTAL PURCHASE AGREEMENT ACT (IC 24-7)

Before you enter into a rental purchase agreement, you should be aware of the lessor's responsibilities under the Indiana Rental Purchase Agreement Act:

Written agreement… The lessor shall reduce a rental purchase agreement to writing.

Disclosures required... The following required disclosures shall be given before the rental purchase agreement is consummated; be stated clearly and conspicuously; and in words and phrases that have a nontechnical meaning. The disclosures may be included in the rental purchase agreement or in a separate writing that references the rental purchase agreement.

(1) A brief description of the property sufficient to identify the property to the lessee and lessor.
(2) The total number, total amount, and timing of all rental payments necessary to acquire ownership of the property, including taxes paid to or through the lessor.
(3) A statement that the lessee will not own the property until the lessee has:
(A) made the number of rental payments and the total of rental payment necessary to acquire ownership of the property; or
(B) exercised an early purchase option.
(4) A statement that charges in addition to the total rental payment necessary to acquire ownership of the leased property may be imposed under the agreement and that the lessee should read the contract for an explanation of these charges.
(5) A brief explanation of all additional charges that may be imposed under the agreement. If a security deposit is required, the explanation must include an explanation of the conditions, under which the deposit will be returned to the lessee.
(6) A statement indicating who is responsible for property if it is lost, stolen, damaged, or destroyed.
(7) A statement indicating that the value of lost, stolen, damaged, or destroyed property is its fair market value on the date that it is lost, stolen, damaged, or destroyed.
(8) A statement indicating whether the property is new or used. However, property that is new may be described as used.
(9) A statement that the lessee has an early purchase option to purchase the property at any time during the period that the rental purchase agreement is in effect. The statement must specify the price or the formula or other method for determining the price at which the property may be purchased.
(10) A brief explanation of the lessee's right to reinstate a rental purchase agreement and a description of the amount, or method of determining the amount, of any penalty or other charge applicable under IC 24-7.5 to the reinstatement of a rental purchase agreement.

Rental payment receipts… The lessor shall furnish the lessee, without request by the lessee, a written receipt for each rental payment made in cash or by another method of rental payment that does not provide evidence of the rental payment.

Ownership acquisition… At any time after the first rental payment is made, the lessee may acquire ownership of the property under the terms specified in the rental purchase agreement.

Assignment of earnings as payment… A lessor may not accept an assignment of earnings from the lessee for payment or as security for payment for a charge arising under a rental purchase agreement. An assignment of earnings in violation of this section is unenforceable by the assignee of the earnings and revocable by the lessee. The Act does not prohibit a lessee from authorizing deduction from the lessee's earnings if the authorization is revocable and is otherwise permitted by law.

Repossession limited… A lessor may not require a lessee to authorize the lessor or a person acting on the lessor's behalf to unlawfully enter upon the lessee's premises or to commit any breach of the peace in the repossession of the property.

Mandatory insurance; early termination of agreement or item return penalties; fees or charges imposed on cosigner… A lessor may not require any of the following:

(1) The mandatory purchase of insurance by the lessee from the lessor.
(2) A penalty for early termination of a rental purchase agreement or for the return of an item at any point, except charges authorized under IC 24-7-5.
(3) A payment by a cosigner of the rental purchase agreement for any fees or charges that may not be imposed on the lessee as part of the rental purchase agreement.

Additional payments… Except as provided in Ownership acquisition, a lessee may not be required to make any payment in addition to regular rental payments in order to acquire ownership of the property or pay rental payments totaling more than the cost to acquire ownership stated in the rental purchase agreement.

ALLOWABLE ADDITIONAL CHARGES

Nonrefundable processing fee… A lessor may contract for and receive an initial nonrefundable processing fee not to exceed $10.

Security deposit refunds… A lessor may refuse to refund any part of a security deposit provided by a lessee only under the conditions authorized in the rental purchase agreement.

Delivery charges… A lessor may contract for and receive a reasonable delivery charge if the lessor actually delivers the item to the lessee at a place other than the lessor's place of business. The delivery charge may be assessed in lieu of and not in addition to any initial processing charge imposed.

Rental payment pick-up charges… A lessor may contract for and receive a charge for picking up rental or other payments from the lessee if the lessor is required or requested to visit the lessee to pick up a payment at a place other than the lessor's place of business. A charge assessed may not exceed $10.

Late charges or delinquency fees… The parties may contract for late charges or delinquency fees as follows:

(1) For rental purchase agreements with monthly renewal dates, a late charge not exceeding $5 may be assessed on any rental payment not made within 5 days after the renewal date for the agreement; or the return of the property is required under the rental purchase agreement.
(2) For rental purchase agreements with weekly or biweekly renewal dates, a late charge not exceeding $1 for any payment not greater than $9.50; $2 for any payment greater than $9.50 but not greater than $19.50; or $3 for any payment greater than $19.50 may be assessed on any rental payments not made within 3 days after the renewal date for the agreement; or the

return of the property is required under the rental purchase agreement.

A late charge on a rental purchase agreement may be collected only once on any accrued rental payment, no matter how long it remains unpaid. A late charge may be collected at any time after it accrues. A late charge may not be assessed against a rental payment that is timely made, even though an earlier late charge has not been paid in full.

Reinstatement fee… A reinstatement fee imposed may not exceed $5.

Sales and use taxes… The lessor may require the lessee to pay any state sales and use taxes levied in connection with a rental purchase agreement.

Official fees… A lessor may contract for and receive from the lessee an amount equal to all official fees required to be paid under a rental purchase agreement.

Replacement cost… If a lessee is liable to a lessor for the replacement cost of property leased under a rental purchase agreement, the lessor may not charge the lessee more than the fair market value for the property.

Liability waiver fee... A lessor and a lessee may contract for a liability waiver fee in the following amounts:

(1) In the case of a rental purchase agreement with weekly or biweekly renewal dates, the liability waiver fee may not exceed the greater of 10% of a periodic lease payment due or $2.
(2) In the case of a rental purchase agreement with monthly renewal dates, the liability may not exceed the greater of 10% of a periodic lease payment due or $5.

The selling or offering for sale of a liability damage waiver under this section is subject to the following prohibitions and requirements:

(1) A lessor may not sell or offer to sell a liability damage waiver unless all restrictions, conditions, and exclusions are printed in the rental purchase agreement, or in a separate agreement, in 8 point type or larger; or written in ink or typewritten in or on the face of the rental purchase agreement in a blank space provided therefor.
(2) The liability damage waiver may exclude only loss or damage to the property that is the subject of the rental purchase agreement caused by moisture, scratches, mysterious disappearance, vandalism, abandonment of the property, or any other damage intentionally caused by the lessee or that results from the lessee's willful or wanton misconduct.

(3) The liability damage waiver agreement must include a statement of the total charge for the liability damage waiver. The liability damage waiver agreement must display in 8 point boldface type the following:

NOTICE: THIS CONTRACT OFFERS, FOR AN ADDITIONAL CHARGE, A LIABILITY DAMAGE WAIVER TO COVER YOUR RESPONSIBILITY FOR DAMAGE TO THE PROPERTY. BEFORE DECIDING WHETHER TO PURCHASE THE LIABILITY DAMAGE WAIVER, YOU MAY WISH TO DETERMINE WHETHER YOUR OWN HOMEOWNERS OR CASUALTY INSURANCE AFFORDS YOU COVERAGE FOR DAMAGE TO THE RENTAL PROPERTY, AND THE AMOUNT OF THE DEDUCTIBLE UNDER YOUR OWN INSURANCE COVERAGE. THE PURCHASE OF THIS LIABILITY DAMAGE WAIVER IS NOT MANDATORY AND MAY BE DECLINED.

The restrictions, conditions, and exclusions of the liability damage waiver must be disclosed on the agreement or on a separate agreement, sheet, or handout given to the lessee before entering into the rental purchase agreement. The separate contract, sheet, or handout must be signed or otherwise acknowledged by the lessee as being received before entering into the rental purchase agreement.

REINSTATEMENT

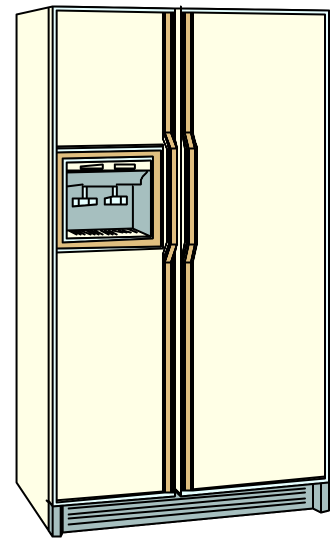
A lessee who fails to make timely rental payments has the right to reinstate the original rental purchase agreement without losing any rights or options previously acquired under the rental purchase agreement if subsequent to having failed to make a timely rental payment, the lessee promptly surrenders the property to the lessor, if requested by the lessor and not more than 60 days has elapsed since the lessee returned the property.

Condition precedent to reinstatement; charges… As a condition precedent to reinstatement of the rental purchase agreement, a lessor may charge:

(1) the outstanding balance of any accrued rental payments and delinquency charges;
(2) a reinstatement fee not exceeding the amount allowed; and
(3) delivery charges not exceeding the amount allowed if redelivery of the item is necessary.

A reinstatement fee may not be charged unless the property has been returned to the lessor and is in the lessor's possession.

TIPS ON RENTING-TO-OWN



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